

UNITED STATES SENATOR • IOWA

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Grassley: Low-income Child Tax Credit Eluded Too Many

WASHINGTON -- Sen. Chuck Grassley, ranking member of the Committee on Finance, today said hundreds of thousands of eligible families didn't claim a valuable new child tax credit last year, a situation he is working to rectify for the past tax year and in the future.

"Congress and the President developed tax cuts to help millions of low-income families," Grassley said. "We did our job, but the IRS dropped the ball. The IRS forgot the 'service' part of its name and mission. The agency failed to help thousands of families when it had a chance. It even cancelled an outreach program to help those families.

"It's a waste to have tax credits a lot of people miss. This makes me wonder how many other tax breaks low-income taxpayers qualify for but don't claim because they aren't aware of them. The IRS needs to do a lot better job of spotting oversights in the taxpayers' favor. The IRS should reach out and let working families know about the tax breaks available to them, including the tremendous tax benefits that President Bush signed into law last year."

Grassley was the Finance Committee chairman in spring 2001 when the committee passed a tax cut package that President Bush ultimately signed into law. The \$1.35 trillion tax cut package included \$172 billion over 10 years to expand and improve the existing child tax credit, especially for low-income families. The legislation increases the per-child tax credit over 10 years and makes it refundable so that low-income taxpayers benefit, even if they have no tax liability.

Two new reports from the Treasury Inspector General for Tax Administration show that while many eligible taxpayers claimed the new tax breaks, a significant number did not. The reports show 1.6 million families claimed the refundable child tax credit; an additional 611,560 families appeared potentially eligible to claim the credit totaling \$238 million but did not claim it, ostensibly because they didn't know about it.

Grassley initiated a letter to Treasury Secretary Paul O'Neill asking for outreach by the Internal Revenue Service to taxpayers eligible for the new child tax credits. The IRS has indicated it will reach out to taxpayers who missed the tax credits for the 2001 tax year. Grassley said he will continue to monitor the IRS' efforts.

The text of Grassley's letter to O'Neill, signed by three other senators, follows.

October 2, 2002

The Honorable Paul O'Neill
Secretary
Department of Treasury
Washington, D.C. 20220

Dear Mr. Secretary:

Two recent Treasury Inspector General for Tax Administration (TIGTA) reports reviewed the administration of the child tax credit. According to TIGTA, 611,560 families who appear eligible for the child tax credit did not claim the child tax credit. As such, these families did not receive \$238 million in available child tax credits. We are concerned that hundreds of thousands of taxpayers are not realizing the benefits afforded by the tax laws.

The overwhelming number of families that did not receive the child tax credit were eligible for the new refundable child tax credit passed by Congress last year and signed into law by President Bush. A critical part of the expansion of the child tax credit was the tax relief and assistance it provided to millions of low-income working families. The 2001 legislation increased the child tax credit to \$1,000 per child over the next 10 years and the Senate made the credit refundable, ensuring that low income taxpayers could also benefit. We are very proud of the fact that we voted to provide real help to those who play by the rules and labor to support their families.

TIGTA's report "Outreach Initiatives Need to Ensure Taxpayers Receive the Benefit of the Child Tax and Additional Child Tax Credits" (Outreach) states that the Internal Revenue Service (IRS) has done little to nothing in terms of informing working families that they may be eligible for the child tax credit. The IRS proposed an initiative to advise families who appeared eligible for, but failed to claim, the child tax credit. Unfortunately, that initiative was cancelled. TIGTA's report comments:

The IRS currently has no alternative plan to assist the large number of primarily low-income taxpayers that may be affected by this decision in the future or to effectively issue advisory notices on the 611,560 returns of taxpayers who appear eligible for, but did not claim the CTC [child tax credit] and/or ACTC [additional child tax credit] for TY 2001.

The IRS's failure to notify eligible taxpayers is unacceptable. The TIGTA report states that those families who may be eligible, but who are not receiving the child tax credit, are our most vulnerable families, over half with earned income between \$10,000 and \$20,000. In addition, nearly 60% of those potential eligible families are single mothers and fathers.

The cancellation of the outreach initiative by the IRS is even more dismay given that the IRS failed to provide assistance to 132,627 families (part of the 611,560 discussed above) during returns processing because the IRS planned to remedy the issue with the now-cancelled outreach initiative. The child tax credit for these taxpayers was potentially \$25.7 million. The second TIGTA report released today, "Although the 2002 Filing Season was Completed Timely, Customer Service Could be Improved During Error Processing" (Customer Service) highlights the problem:

Although management acknowledged the eligibility of these taxpayers and stated that applying the credit during error processing was possible, the IRS chose not to apply the credit. This decision was made because management believed these taxpayers would later

be contacted in a planned outreach initiative intended to identify all eligible taxpayers that may not have claimed both the Child Tax Credit (CTC) and the ACTC and provide them a notice that could be used as a claim form to request the credit. However, the IRS has since concluded that, due to a limited budget and competing programming priorities, the outreach initiative cannot be implemented.

Congress in 1998 passed the IRS Restructuring and Reform Act of 1998 (RRA 98) which directed the IRS to place an emphasis on serving the public and meeting taxpayer needs. Nothing could be more vital to achieve Congress's intent than to help working families navigate the tax system. The TIGTA Customer Service report recommends improvements in the quality of service to taxpayers that could be realized with better outreach and corrective actions during return processing:

Recognizing these opportunities would allow the IRS to ensure the proper application of tax benefits to eligible individuals during the filing season and reduce taxpayer burden by eliminating the need for submitting amended returns and other correspondence, while also improving processing by allowing the IRS to only process tax return information once.

Nonetheless, TIGTA's "Outreach" report noted that in canceling the outreach program, the IRS stated that it had no legal requirement to notify taxpayers of the unclaimed tax credit and was constrained by a lack of resources. As the TIGTA "Outreach" report highlights, the IRS already provides notification to families eligible for the Earned Income Credit. It is our hope that a similar notification can be provided for the child tax credit.

In addition, Congress has provided the Administration full funding for the IRS. Thus, it appears that assisting working families who are eligible for the child tax credit is more a question of priorities and proper management of resources, rather than sufficient funding. For example, the Wage and Investment (W&I) division has a group devoted to pre-filing initiatives and outreach. It appears that outreach initiatives for the child tax credit are well within the mission of the W&I group.

Mr. Secretary, we urge you to ensure that Treasury and the IRS develop solutions to the concerns raised by the TIGTA reports. We request that you direct Treasury and the IRS to provide an effective means of contacting and educating families potentially eligible for the child tax credit in the last year as well as the years in the future. We are not confident that, after so many promises and cancellations regarding outreach, the latest proposals for outreach by IRS management contained in the IRS's response to TIGTA's Outreach report will be implemented without accountable personnel reporting directly to you.

In supporting last year's \$1.35 trillion in tax cuts proposed by President Bush, we voted for providing working families real relief. We expect the Department of Treasury to ensure that the benefits of these tax cuts are realized by those families most in need.

Sincerely,

Max Baucus

Charles Grassley

Blanche Lincoln

Olympia Snowe